



BANCO CENTRAL DO BRASIL

Minutes of the 176th Meeting of the Monetary Policy Committee (Copom)

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Date: July 9th, 2013, from 4:12PM to 7:39PM, and July 10th, from 5:13PM to 7:59PM

Place: BCB Headquarters meeting rooms – 8th floor on July 9th and 20th floor on July 10th – Brasília – DF

In attendance:

Members of the Committee

Alexandre Antonio Tombini – Governor
Aldo Luiz Mendes
Altamir Lopes
Anthero de Moraes Meirelles
Carlos Hamilton Vasconcelos Araújo
Luiz Awazu Pereira da Silva
Luiz Edson Feltrim
Sidnei Corrêa Marques

Department Heads (present on July 9th)

Bruno Walter Coelho Saraiva - International Affairs Department
Daso Maranhão Coimbra - Department of Banking Operations and Payments System
Eduardo José Araújo Lima - Research Department (also present on July 10th)
João Henrique de Paula Freitas Simão - Open Market Operations Department
Márcio Barreira de Ayrosa Moreira - Department of Foreign Reserves
Renato Jansson Rosek – Investor Relations and Special Studies Department
Tulio José Lenti Maciel – Economic Department

Other participants (present on July 9th)

Gustavo Paul Kurrle – Press Officer
Otávio Ribeiro Damaso – Chief of Governor 's Staff

The members of the Copom analyzed the recent performance of and the prospects for the Brazilian economy and for the international economy, under the monetary policy framework, which is designed to comply with the inflation targets established by the government.

Recent Economic Developments

1. Monthly inflation measured by the Extended Consumer Price Index (IPCA) changed 0.26% in June, 0.18 percentage points (p.p.) above the registered in June 2012. As a consequence, inflation in twelve months reached 6.70% in June (compared to 4.92% in June 2012). Market prices changed 8.28% in twelve months (5.34% until June 2012), and regulated prices, 1.77% (3.77% until June 2012). Among market prices, the prices of tradable goods increased 6.75%, and the prices of non-tradable goods, 9.63%. The prices of food and beverages group cooled down at the margin, changing 0.04% in June and 12.80% in twelve months



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(7.34% until June 2012). On its turn, the prices of services rose 8.64% in twelve months (7.50% until June 2012). In short, regulated inflation retreats, at the same time that non-tradables inflation remains at high levels and the tradables inflation continues to increase.

2. The average of the underlying inflation measures, calculated by the BCB, changed from 0.48% in May to 0.39% in June. As a consequence, on a twelve-month trailing basis, inflation reached 6.43% (1.27 p.p. above the one registered until June 2012). Specifically, the smoothed trimmed means IPCA core inflation changed from 0.52% in May to 0.36% in June. The double weight core inflation, from 0.50% to 0.43%; the core inflation by exclusion of regulated prices and household food, from 0.48% to 0.38%; the non-smoothed trimmed means core inflation, from 0.41% to 0.31%; the core by exclusion, which excludes ten household food and fuels items, from 0.49% to 0.47%. The diffusion index, which had reached 75.1% in January, declined to 55.3% in June.
3. Inflation measured by the General Price Index (IGP-DI) increased 0.76% in June (0.32% in May) and accumulates change of 6.28% in the twelve months through June (5.66% in the twelve months through June 2012). The main component of this indicator, the Wholesale Price Index (IPA), changed 6.02%, (against 5.54% until June 2012). According to the breakdown by stage of production, there were increases in the prices of raw materials (4.82%), intermediate goods (5.57%) and final goods (7.52%), according to the same comparison basis. Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, changed 6.22% in twelve months through June (5.37% in the twelve months through June 2012). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 8.00% (7.04% in the twelve months through June 2012), partially driven by the labor cost, which increased 10.32% in the period. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), increased 0.28% in May, expanding by 4.07% in twelve months. The Copom considers that the effects of the behavior of wholesale prices on consumer inflation will depend on the current and prospective demand conditions and on the price setters' expectations regarding the future inflation path.
4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimate for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br increased 0.8% in April, after expanding by 1.1% in March. Year-over-year, the IBC-Br grew 1.2% in March and 7.3% in April. The Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), retreated in June. The Services Sector Confidence Index (ICS) remained stable in June, after retreating in April and in May. The industrial businessmen confidence, measured by the Industry Confidence Index (ICI), increased in May and decreased in June. Regarding agriculture, the Agricultural Production Systematic Assessment (LSPA), carried out by the IBGE, indicates that grains production should grow by 14.7% in 2013, relative to the 2012 harvest.
5. The Credit Conditions Indicators – elaborated by the Central Bank based on quarterly surveys with institutions representing each credit market segment – evidence for the third quarter of 2013, compared to the second quarter, prospect of moderation in the pace of concessions of new credit operations for the segment of big companies, and maintenance in the case of micro, small and medium companies. Regarding credit to individuals, the indicator suggests stability in the pace of concessions of credit lines directed to consumption and moderation in the concessions regarding housing.
6. Similarly to other monthly activity indicators, the one related to industry has showed volatility in recent months, which in part reflects adjustments in the number of working days due to floating holidays. In this context, the industrial production retreated 2.0% in May, reverting the 1.9% increase observed in April, according to the general industrial production series seasonally adjusted by the IBGE. In May, industrial production decreased month-on-month in 20 out of the 27 branches of activity surveyed. Nevertheless, the industrial production in the month was 1.4% above the one registered in May 2012, but it retreated 0.5% in the twelve months through May. According to data released by the National Confederation of Industry (CNI), real revenue in the manufacturing industry increased 6.2% in the first five months of 2013, compared to the same period of the previous year, and the number of worked hours remained stable.



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7. Among the industry use categories, according to data seasonally adjusted by the IBGE, and considering the month-on-month growth in May, the production of capital goods reduced 3.5%; of intermediate goods, 1.1%; of durable consumer goods, 1.2%; and of semidurable and non-durable consumer goods, 1.0%. Year-over-year, the production of capital goods increased 12.5%, of durable consumer goods, 4.1%, and the one related to semi-durable and non-durable consumer goods, 0.8%. On the other hand, the production of intermediate goods retreated 0.6%, according to the same comparison basis. Regarding growth accumulated in the last twelve months through May, durable consumer goods production expanded by 2.7%, while the other use categories retreated: capital goods (-2.3%); intermediate goods production (-0.7%); and semi-durable and non-durable consumer goods (-0.4%).
8. The unemployment rate in the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, was estimated at 5.8% in May (the same value of April 2013 and May 2012). According to the BCB seasonally adjusted series, the unemployment rate in May remained at 5.4%, close to the minimum of the historical series (5.3%), started in March 2002. The reduction in the Working Age Population (WAP) growth rate during the last years has contributed to the maintenance of the unemployment rate at historically low levels. On its turn, the occupation level remained stable, at 53.8% of the WAP, in May. Still according to the PME, the average real income increased 1.4% in May, year-over-year, and real payroll increased 1.5%, also compared to May 2012. Data released by the Ministry of Labor and Employment (MTE) show that 72 thousand formal jobs were created in May, the lowest reading for the month, since 1992. In short, the set of available data indicates narrow idleness margin in the labor market, despite some signs of moderation at the margin.
9. According to the retail monthly survey (PMC), released by the IBGE, retail sales volume increased 1.6% in April, year-over-year. Broad retail sales volume increased 9.1%, according to the same comparison basis. According to the seasonally adjusted series, in April retail sales changed by 0.5%, and broad retail sales, by 1.9%, month-on-month. Therefore, the broad retail sales growth rate in the last twelve months reached 7.7%, with expansion in all ten sectors surveyed. On its turn, the Trade Confidence Index (ICOM), measured by the FGV, slightly retreated in June. The Copom evaluates that the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth and by the moderate credit expansion.
10. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, reached 84.2% in June (83.6% in June 2012). According to the seasonally adjusted series calculated by the FGV, the Nuci in June stood at 84.4%. Capacity utilization in the capital goods sector, according to the seasonally adjusted series, decreased to 82.0%. In the sector of consumer goods, intermediate goods and construction inputs, the levels stood at 83.3%, 86.2% and 90.4%, respectively.
11. The twelve-month trailing trade balance result retreated to US\$9.3 billion in June. This result stemmed from US\$239.9 billion in exports and US\$230.5 billion in imports, which diminished 5.9% and 0.2%, respectively, compared to the previous twelve months. On its turn, the current account deficit accumulated in twelve months reached US\$73 billion in May, equivalent to 3.2% of GDP, while the foreign direct investment totaled US\$64.2 billion in the twelve months through May, equivalent to 2.8% of the GDP.
12. In the global economy, low growth prospects in important advanced economies prevail, notably in the Euro Zone, and volatility indicators have responded to the prospects of monetary policy change in the US. High unemployment rates in Europe, coupled with the efforts of fiscal consolidation and political uncertainties, are translated into investments decline and low growth. The composite leading indicator, released by the Organization for Economic Cooperation and Development (OECD), referring to May, signals growth prospects above trend in several advanced economies, such as Germany and Japan. The indicators of the Purchasing Managers Index (PMI) for June indicate continuing global growth, particularly in the manufacturing sector. Regarding monetary policy, accommodative stances have prevailed in the advanced economies. In emerging economies, in general, monetary policy is expansionist. Inflation has remained at moderate levels in the US and in the Euro Zone, and in Japan, deflation is still recorded.



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13. The price of the Brent oil barrel has slightly increased since the previous Copom meeting, reaching levels close to US\$108. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which also reflects the low predictability of some global demand components and the dependency of supply growth on long term risky investment projects. Since the last Copom meeting, the international prices of agricultural commodities have changed -0.5%, and the ones relative to metals have decreased 2.4%. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), increased 5.4% in the twelve months through June 2013.

Assessment of Inflation Trends

14. The identified shocks, and their impacts, were reassessed according to the new set of available information. The scenario considered in the simulations was based on the following assumptions:
 - a) the projected adjustment for gasoline price in 2013 was maintained at 5%, unchanged relative to the value considered at the May Copom meeting;
 - b) the projected adjustment for household electricity price points to a decrease of nearly 15%, unchanged relative to the value considered at the May Copom meeting. This estimate considers the direct impacts of the sector charges reductions announced, as well as readjustments and ordinary tariff revisions planned for this year;
 - c) for 2013, bottled gas prices are projected to remain stable and the fixed telephone tariff is projected to decrease 2.0%, same values considered at the May Copom meeting;
 - d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated in 2013, reduced to 1.8% - which incorporates the recent revocation of adjustments in the urban transportation fares -, down from 2.5% considered at the May Copom meeting; and
 - e) the projected adjustment for the set of regulated prices accumulated in 2014 was maintained at 4.5%, the same value considered at the May Copom meeting. This projection is based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, market prices inflation, and the inflation measured by the IGP (General Price Index).
15. The projection for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, estimates 69 bps and 12 bps spreads for the fourth quarters of 2013 and 2014, respectively.
16. The structural primary surplus that derives from the primary surplus trajectories for 2013 is considered as the fiscal indicator, according to the parameters set out in the Budget Guidelines Law (LDO)/2013; and, for 2014, according to the parameters set out in the Budget Guidelines Law Project (PLDO)/2014.
17. Since the last Copom meeting, the median of the projections compiled by the Investor Relations and Special Studies Department (Gerin) for the 2013 IPCA remained unchanged at 5.81%. For 2014, the median of the inflation projections increased from 5.80% to 5.90%.
18. The baseline scenario assumes the maintenance of the exchange rate at R\$2.25/US\$1.00 and the Selic rate at 8.00% p.a. during the forecast period. Under this scenario, the projection for the 2013 inflation did not change relative to the value considered at the May Copom meeting, therefore, it remains above the 4.50% midpoint target established by the National Monetary Council (CMN). According to the market scenario, which incorporates the consensus exchange and Selic rates trajectories collected by Gerin with market analysts, in the period immediately prior to the Copom meeting, the 2013 IPCA inflation forecast remained stable relative to the value considered at the May meeting. As a consequence, it stands above the inflation target. For 2014, in the baseline scenario, the inflation forecast increased relative to the figure considered at the May Copom meeting and stood stable in the market scenario, both above the 4.5% target.

Monetary Policy Decision

19. The Copom evaluates that the monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation targeting



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regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative scenarios for the evolution of the main variables that determine prices dynamics. The Committee also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, particularly prices setters'. Additionally, it is noteworthy that low risks for the underlying inflation in the short run tend to intensify the effects of monetary policy actions, enabling them to affect in a more long-lasting manner the dynamics of headline inflation in the future. Although the Copom recognizes that other macroeconomic policy actions may influence the prices trajectory, it reaffirms its view that it is particularly under the responsibility of the monetary policy to remain especially vigilant, to guarantee that pressures detected in shorter horizons do not spread to longer horizons.

20. The Copom considers that, since its last meeting, the risks to global financial stability remained high, particularly those derived from the ongoing deleveraging process in the main economic blocks. In this context, despite identifying low probability of occurrence of extreme events in the international financial markets, the Committee considers that the external environment remains complex. The Committee evaluates that, in general, the prospects for moderate global activity this year have remained, with trend of intensification over the relevant horizon for the monetary policy. In this context, there are localized improvements in advanced economies, although the space to use monetary policy remains limited and the fiscal restraint scenario prevails in this and in the upcoming years. In important emerging economies, however, the activity pace has not matched to expectations, despite the resilience of domestic demand. The Committee also highlights evidences of accommodation of commodities prices in the international markets, as well as greater volatility and dollar appreciation trend in the US.
21. The Copom evaluates that the main scenario encompasses a more intense domestic activity pace in this and in the upcoming year. Recent information indicate resumption of investments and continuity of household consumption growth, the latter favored by public transfers and by the vigor in the labor market, which reflects in historically low unemployment rates and in wages growth. In general, domestic absorption has expanded at rates higher than GDP growth rates and tends to be benefited by the effects of fiscal policy actions, by the expansion of credit supply, both for individuals and corporates, and by the program of public services concession, among other factors. However, the Committee notes that the speed of materialization of these expected gains can be limited if the current decline registered in the business and consumer confidence is not promptly reverted.
22. The Copom observes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables, despite recent initiatives point to an expansionist position of the public sector balance. The Committee notes that the generation of primary surpluses in line with the working hypotheses considered for inflation projections, in addition to contributing to reduce the mismatch between supply and demand growth rates, strengthens the reduction trend of the public debt-to-GDP ratio and the positive perception regarding the macroeconomic environment in the medium and long terms.
23. The Copom highlights that its main scenario also considers moderate credit expansion. Still regarding the credit market, the Committee considers opportune initiatives with the aim of moderating the concessions of subsidies through credit operations.
24. In the factors market, the Copom highlights the narrow idleness margin in the labor market and it considers that, under such circumstances, a significant risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation. Despite the moderation signs, the Committee evaluates that the wages dynamics remains originating inflationary cost pressures.
25. The Committee considers that the exchange rate depreciation and volatility observed in the recent quarters call for a natural and expected correction in relative prices. For the Committee, these movements in the local currency market, to some extent, reflect prospects for the transition of international financial markets towards normality, among other dimensions, in terms of liquidity and interest rates. It is important to also highlight that, for the Committee, the mentioned exchange rate depreciation is a source of inflationary pressure in shorter



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periods. However, the secondary effects arising from it, and that would tend to materialize over longer periods, can and should be limited by appropriate monetary policy handling.

26. The Copom evaluates that the high inflation level and the dispersion of prices increases, as recently observed, contribute for inflation to show resistance. In this context, the formal and informal indexation mechanisms and the deterioration in the economic agents' perception regarding the inflation dynamics are included. Considering the damage that the persistence of this process would cause to the decision-making process on consumption and investment, in the Committee's view, it is necessary that, with the due promptness, it is reverted.
27. In this context, the Committee understands that it is appropriate to continue the adjustment pace of the monetary conditions underway.
28. Therefore, continuing the basic interest rate adjustment, the Copom unanimously decided to increase the Selic rate to 8.50% p.a., without bias. The Committee evaluates that this decision will contribute to set inflation into decline and ensure that this trend persists in the upcoming year.
29. The following members of the Committee voted for this decision: Alexandre Antonio Tombini (Governor), Aldo Luiz Mendes, Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Awazu Pereira da Silva, Luiz Edson Feltrim and Sidnei Corrêa Marques.
30. The Copom evaluates that the domestic demand tends to be relatively robust, especially household consumption, largely due to the effects of stimulus factors, such as income growth and moderate credit expansion. This scenario tends to prevail in this and in the upcoming semesters, when domestic demand will be impacted by the remaining effects of the policy actions implemented in 2012. For the Committee, these effects, the programs of public services concession, the permissions for the exploration of oil and the inventories at adjusted levels, among others, create good prospects for investments and industrial production. The Committee considers that recent initiatives point to an expansionist position of the public sector balance. On the other hand, the Committee notes that the fragile international scenario still represents an aggregate demand restraining factor. These elements and the developments in the quasi fiscal framework and in the assets market are important parts of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.
31. The Copom emphasizes that the international evidence, in which it is ratified by the Brazilian experience, shows that high inflation rates generate distortions that lead to higher risks and depress investments. These distortions are manifested, for example, in the shortening of the planning horizons of households, businesses and governments, as well as in the deterioration of the businessmen confidence. The Committee also emphasizes that high inflation rates subtract the purchasing power of wages and transfers, with negative repercussions over household's confidence and consumption. Therefore, high inflation rates reduce the growth potential of the economy, as well as of jobs and income generation.
32. The Copom highlights that, in moments such as the current one, the monetary policy should remain especially vigilant, in order to minimize risks that high inflation rates, such as the ones observed in the last twelve months, persist in the relevant horizon for the monetary policy.
33. At the end of the meeting, it was announced that the Committee will reconvene on August 27th, 2013, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 22,665, of June 27th, 2012.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

34. The IPCA changed 0.26% in June, compared to 0.37% in May, according to the IBGE. The monthly deceleration reflected the decrease of 0.17 p.p., to 0.22%, in market prices and the acceleration, from 0.31%



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to 0.38%, in regulated prices. Regarding market prices, it bears highlighting the deceleration in the prices of tradable goods, from 0.24% to 0.11%, and in non-tradable goods prices, from 0.52% to 0.32%, despite the acceleration in the prices of services, from 0.56% to 0.64%. The IPCA monthly variation was mainly favored by the cooling, from 0.31% to 0.04%, in the prices of food and beverages, with contribution of 0.01 p.p. to the index, compared to 0.08 p.p. in May. The diffusion index reached 55.34% in June, compared to 63.01% in May.

35. Considering periods of twelve months, the IPCA increased 6.70% in June, compared to 6.50% in May. Market prices accelerated from 8.11% to 8.28%, reflecting the acceleration, from 6.31% to 6.75%, in the prices of tradable goods and the deceleration, from 9.71% to 9.63%, in non-tradable goods ones. Regulated prices change reached 1.77%, compared to 1.54% in the twelve-month period ended in May. Services prices increased 8.64% compared to 8.51% and 8.13%, in the twelve-month periods ended in May and April, respectively.
36. The IGP-DI changed 0.76% in June, after increasing 0.32% in May, according to the FGV, a result of the acceleration in the IPA and in the IPC, and the deceleration in the INCC. The IGP-DI increased 1.85% in the year, compared to 3.59% in the same period of 2012, and 6.28% in twelve months through June, compared to 6.20% in twelve months through May.
37. The IPA-DI changed 0.85% in June, compared to 0.01% in May, accumulating 0.67% in the year and 6.02% in twelve months. The prices of industrial products increased 0.62% in the month, compared to 0.30% in May, accumulating increases of 2.90% in the year and 5.35% in twelve months. The prices of agricultural products changed 1.46% in June and -0.75% in the previous month, accumulating changes of -4.76% in the year and 8.01% in twelve months. The monthly performance of industrial products prices evidenced, mainly, the increase in the prices of oils and fats (11.24%), and dairy products (4.04%), which contributed 0.29 p.p. and 0.06 p.p., respectively. Regarding agricultural products prices, it bears noticing the changes in the items soybeans (11.13%); *in natura* milk (2.48%); and bovines (1.33%), contributing 0.53 p.p., 0.06 p.p. and 0.05 p.p., respectively.
38. The IPC-DI increased 0.35% in June, compared to 0.32% in May, increasing by 3.29% in the year, compared to 2.83% in the same period of the previous year, and 6.22% in twelve months. The monthly acceleration of the IPC-DI in June reflected the increases in the prices of some groups, such as transports, to 0.30% from -0.19% in May; and housing, to 0.67% from 0.39%, with contributions of 0.05 p.p. and 0.16 p.p., respectively. The INCC-DI changed 1.15% in June, compared to 2.25% in May, with deceleration both in the prices of materials, equipment and services, from 0.64% to 0.50%, and in the costs of labor force, from 3.77% to 1.74%. The INCC increased 6.02% in the year and 8.00% in twelve months.
39. The IPP/IT increased 0.28% in May, compared to 0.40% in April, accumulating 0.27% in the year, compared to 3.36% in the same period of 2012. The monthly result of the IPP/IT reflected, mainly, the increase in the prices of food, 1.42%, contributing 0.27 p.p. to the index, partially offset by the decreases in other chemical products, 1.18%, and coke, oil byproducts and biofuels, 0.93%, contributing -0.13 p.p. and -0.10 p.p., respectively. In twelve months, the IPP/IT changed 4.07% in May, compared to 5.54% in April, with highlights to the contributions of food, 0.77 p.p.; coke, oil byproducts and biofuels, 0.67 p.p.; and other chemical products, 0.53 p.p.
40. The Commodities Index Brazil (IC-Br) increased 5.34% in June, after increasing 0.55% in May, with valuations of 5.73%, 4.40% and 4.30% in the segments of agriculture, energy and metals commodities, respectively. The IC-Br accumulated a decrease of 2.43% in the year through June, a result of the devaluations of 7.40% and 2.02% in the segments of metals and agriculture commodities, respectively, and of the valuation of 0.82% in the segment of energy commodities.

Economic Activity

41. The IBC-Br increased 0.84% in April, month-on-month, considering seasonally adjusted data. The index changed 1.38% in the quarter ended in April, compared to the quarter ended in January, when it had



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increased 0.84%, according to the same comparison basis. Considering observed data, the IBC-Br changed 7.30% year-over-year, compared to 1.16% in March, according to the same comparison basis, and accumulated increases of 3.20% in the year and of 1.57% in the twelve-month period through April.

42. Broad retail sales, which include vehicle and construction inputs, increased 1.9% in April, month-on-month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC), after changes of 0.2% in March and -0.7% in February. Sales increased 0.6% in the quarter ended in April, compared to the quarter ended in January, when it had increased 0.2%. By segment, seven out of the ten surveyed segments increased, with highlights for pharmaceutical, medical, orthopedic, perfumery and cosmetic articles, 6.4%; books, newspapers, magazines and stationery, 4.5%; and fuels and lubricants, 3.3%. On the other hand, there was a decrease in the sales of office, computer and communication equipment and materials, 1.1%. Retail sales increased 0.5% in April, month-on-month, after stability in March and a drop of 0.4% in February, accumulating an average retraction of 0.1% in the quarter ended in April, compared to the quarter ended in January. The retail sales increased 6.4% in the twelve-month period through April.
43. Considering observed data, broad retail sales increased 9.1% in April, year-on-year, with emphasis in the performance of the segments vehicles, motorcycles, parts and pieces, 22.4%, and construction material, 16.2%. Broad retail sales increased 7.7% in the twelve-month period ended in April, with highlights for the increase of other articles of domestic and personal use, 10.2%; vehicles, motorcycles, parts and pieces, 10.1%; pharmaceutical, medical, orthopedic, perfumery and cosmetic articles, 9.9%; and furniture and household appliances, 8.4%.
44. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 318.6 thousand units in June, increasing 4.2% month-on-month, according to the Automotive Vehicles Distribution National Federation (Fenabrave), seasonally adjusted by the BCB. These sales increased 0.5% in the quarter ended in June, compared to the one ended in March, when they increased 2.9%, according to the same comparison basis. Considering twelve-month periods, automobile vehicles increased 6.3% in June, due to increases of 7.9% in the sales of automobiles and of 4.6% in the ones related to light commercial vehicles. In contrast, the sales of trucks and buses decreased 10.3% and 5.2%, respectively, according to the same comparison basis.
45. Capital goods imports quantum, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, decreased 8.6% in May, month-on-month. The observed data analysis showed changes of -11.6% compared to May 2012, of 2.9% in the year, and of -0.5% in the twelve-month period ended in May.
46. Capital goods production decreased 3.5% in May, accumulating an expansion of 5.7% in the quarter ended in May, compared to the quarter ended in February, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The monthly result reflected, especially, the retreats in the production of equipment for the electric energy sector, 12.5%; construction equipment, 9.9%; and non-serial industrial equipment, 5.9%. In contrast, it bears highlighting the increases in the segment of agricultural equipment, 3.8%; and goods for industrial series use, 2.1%. Considering the observed data, the expansion of 12.5%, year-over-year, reflected the increase in the production of goods for industrial series use, 26.6%; agricultural pieces, 23.2%; agricultural equipment, 21%; and transport equipment, 20.2%.
47. Construction inputs production retreated by 1% in May, month-on-month, accumulating an expansion of 1.9% in the quarter, compared to the quarter ended in February, considering seasonally adjusted data. Considering the last twelve months through May, the segment production increased 0.4% in May.
48. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R\$176.3 billion in the twelve months through April, 26.5% above the one registered in the same period of 2012. It bears emphasizing the growth of the resources destined to commerce and services (59%), agriculture and livestock sector (49%) and industry (36%), in contrast to the decrease of 3% in infrastructure. In the period, the industry absorbed 33% of the total resources, followed by infrastructure (31%), commerce and services (28%) and agriculture and livestock sector (8%).



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49. Industrial production decreased 2% in May, month-on-month, according to IBGE seasonally adjusted data, after increasing by 1.9% in April, influenced by the retractions of 2.3% and 0.5% in the manufacturing and mining industries, respectively. According to the use categories, there were decreases in the production of capital goods (-3.5%), followed by durable consumer goods (-1.2%), intermediate goods (-1.1%) and semi and non-durable consumer goods (-1%). Nineteen out of the 26 manufacturing industry activities surveyed decreased in the month, with highlights for the segments of furniture (-11.4%), office machines and computer equipment (-9%), perfumery and cleaning products (-8.2%), footwear and leather (-7.3%) and machinery and equipment (-5%), in contrast to the increases of 4.8%, 1.6% and 1.1% in the industries of beverages, petroleum refining and alcohol, and basic metallurgy, respectively. The industrial production increased 0.7% in the quarter ended in May, quarter-over-quarter, when it had increased by 0.2%, reflecting changes of 0.6% in the manufacturing industry and -4.4% in the mining industry. It bears highlighting the increases in the industries of tobacco (24.5%); office machines and computer equipment (14.6%); machinery and equipment (8.8%); medical-hospital instrumentation equipment, optical and other (8.2%); and automotive vehicles (6.3%), and the retractions in the pharmaceutical industry (-8.1%) and metal products (-4.5%). Considering observed data, industrial production expanded by 1.4% in May, year-over-year, recording increase of 2% in the manufacturing industry, with highlights for the expansion of 12.5% in the capital goods production and for the retraction of 9.1% in the mining industry. The 1.9% expansion in the quarter ended in May, year-over-year, reflected, in particular, the increase of 13.2% in the capital goods industry, while the retraction of 0.5% in the twelve months through May was driven primarily by the decreases in capital goods (-2.3%) and intermediate goods (-0.7%).
50. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 84.4% in June, 0.2 p.p. lower than the observed in May, according to data seasonally adjusted by the FGV. Among the use categories, there were decreases in the production of durable consumer goods (-1 p.p.), capital goods (-0.5 p.p.), intermediate goods (-0.3 p.p.) and non-durable consumer goods (-0.2 p.p.), while construction inputs increased 1.3 p.p.. Considering the observed series, the Nuci increased 0.6 p.p., year-over-year, reaching 84.2%, as a result of the increases in the production of construction inputs (3.1 p.p.), durable consumer goods (1.2 p.p.) and intermediate goods (0.7 p.p.), and of the decreases in the production of non-durable consumer goods (-1.4 p.p) and capital goods (-0.5 p.p.).
51. Vehicles output reached 320.8 thousand units in June, representing a decrease of 2.7% month-on-month, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. In the quarter ended in June, the production increased by 12.6%, quarter-over-quarter, when it had decreased 3.6%. Considering observed data, vehicles output increased 15.5% year-over-year, 18.1% in the year and 12.1% in the twelve months through June.
52. Still according to data released by Anfavea, national vehicle licensing increased 4.7% in June, month-on-month, and 1.4% in the quarter ended in June, considering data seasonally adjusted by the BCB. Regarding observed data, there were changes of -8.6% year-over-year, 8.5% in the year and 13.4% in twelve months. Automobile exports totaled 51.2 thousand units in June, representing changes of 42.7% year-over-year, 18.1% in the year and -7.4% in twelve months. According to the series seasonally adjusted by the BCB, exports increased 8% in the month, month-on-month, and 16.5% in the quarter ended in June, as compared to the quarter ended in March.
53. The LSPA survey carried out by the IBGE regarding June projected 185.7 million tons for the 2013 national harvest of grains, representing changes of 14.7% year-over-year and -0.1% over the May crop estimate. The new prognosis for 2013 evidences, in particular, the expected increase of 23.8% for the soybean production, followed by the impacts for the other main crops' estimates of 26.9%, 9.7%, 4.8% and 3.1% for the harvests of wheat, corn, beans and rice, respectively. Moreover, a 10.3% increase over the previous year is estimated for the harvest of sugar cane, according to the same comparison basis.

Surveys and Expectations



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54. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), reached 112.9 points in June. The decrease of 0.4% month-on-month reflected changes of 0.1% in the Expectations Index (IE) and -1.5% in the Current Situation Index (ISA). According to observed data, the ICC decreased 8.5% year-over-year, due to decreases of 13.3% in the ISA and of 5.4% in the IE.
55. The ICS, carried out by the FGV, considering seasonally adjusted data, remained stable at 119.4 points in June, month-on-month, reflecting the changes of -0.7% in the Current Situation Index (ISA) and 0.4% in the Expectations Index (IE). The ICS decreased 3.3%, year-over-year, as a result of the decreases of 5.7% in the ISA and of 1.5% in the IE.
56. The Commerce Confidence Index (ICOM), measured by the Commerce Survey, from the FGV, reached 121.5 points in June, decreasing 3.7% month-on-month. The result reflected the decreases of 3.7% in the Expectations Index (IE-COM) and in the Current Situation Index (ISA-COM). In the quarter ended in June, the ICOM decreased 3%, year-over-year, due to the retractions of 3.9% in the ISA-COM and of 2.5% in the IE-COM.
57. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), reached 103.8 points in June, a decrease of 1.1% month-on-month, driven by the decreases of 0.9% in the Current Situation Index (ISA) and 1.3% in the Expectations Index (IE). The ICI increased 0.8% year-over-year, as a result of the increases of 1% in the ISA and 0.6% in the IE.
58. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 118.1 points in June, decreasing 4.8% year-over-year. The result reflected retreats of 9.5% in the Current Situation Index (ISA-ICST) and 0.9% in the Expectations Index (IE-ICST). In the quarter ended in June, the ICST decreased 3.6%, year-over-year, influenced by the decreases of 7.2% in the ISA-ICST and 0.6% in the IE-ICST.

Labor Market

59. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 72 thousand formal jobs were created in May, down from 139.7 thousand in the same month of 2012, of which 33.8 thousand jobs in the agricultural sector, 21.2 thousand in the services sector and 15.8 thousand jobs in the manufacturing industry. In the year, 533.7 thousand jobs were created and, in the twelve months through May, 664.1 thousand, compared to 737.9 thousand and 1.3 million, respectively, in the same periods of 2012. Month-on-month, formal job creation expanded by 0.1% in May, considering data seasonally adjusted by the BCB.
60. According to the IBGE employment survey (PME), conducted in the six main metropolitan areas of the country, the unemployment rate reached 5.8% in May, compared to April and to the same month of 2012. The monthly result reflected equal increases, of 0.4% in the employed population and in the Economically Active Population (PEA). Year-over-year, the employed population increased 0.1%, compared to 0.9% in April, according to the same comparison basis. Considering data seasonally adjusted by the BCB, the unemployment rate remained stable at 5.4%. According to the same survey, the average real income usually earned by workers decreased 0.3% month-on-month and increased 1.4% year-over-year. Real payroll increased 0.1% and 1.5%, respectively, according to the same comparison bases.

Credit and Delinquency Rates

61. The total credit in the financial system, including the non-earmarked and earmarked credit operations, totaled R\$2,487 billion in May, with expansions of 1.5% in the month and 16.1% in twelve months. The credit-to-GDP ratio reached 54.7%, compared to 54.3% in April and 50.3% in May 2012. The balance of non-earmarked credit operations, equivalent to 57.6% of the total credit outstanding in the financial system, rose 1.2% in the month and 10.4% in twelve months, reflecting respective changes of 1% and 8.6%, respectively, for credit operations with individuals and 1.3% and 12.4%, respectively, for credit operations with corporate. The



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earmarked credit operations increased, respectively, 2% and 24.7%, according to the same comparison bases, with highlights for the increases of 2.9% and 35.1%, respectively, in mortgages, for the segment of individuals, and 1.8% and 16.4%, respectively, in the BNDES's financing for the operations destined to corporate.

62. The overall average interest rate of loans in the financial system reached 18.1% p.a. in May, representing falls of 0.4 p.p. month-on-month and 3.0 p.p. year-over-year. The average rates for the segments of individuals and corporate reached, respectively, 24% and 13.5%, corresponding to reductions of 0.3 p.p. and 0.5 p.p., respectively, month-on-month, and retreats of 3.6 p.p. and 2.7 p.p., year-over-year.
63. The overall average tenure on credit operations reached 98.6 months in May, representing an increase of 8.1 months, month-on-month, and 18.9 months, year-over-year. The average tenure related to individuals increased 1.3 months, month-on-month, and 18.9 months, year-over-year and that related to the corporate segment increased 13.1 months and 18.4 months, according to the same comparison basis, respectively, reaching 130.2 months for individuals and 74.1 months for corporate.
64. The delinquency rate in the financial system, corresponding to operations in arrears for more than ninety days, stood at 3.6% in May, remaining stable for the fourth consecutive month and decreasing 0.3 p.p. compared to May 2012. The indicators related to operations with individuals and corporate remained stable relative to April, at 5.3% and 2.3%, respectively, falling by 0.7 p.p. and increasing by 0.1 p.p., in the same order, in twelve months.

External Environment

65. The global economic recovery remains at a moderate pace. The global PMI retreated to 51.4 points in June, down from 52.9 in May, due to the deceleration of the growth in the emerging economies and to the continuity of activity contraction in the Euro Zone. In the US, the most recent economic indicators indicate that the economic activity continues to benefit from the recovery in the housing and labor markets, which point, respectively, elevations in the confidence indices of the building companies and more elevated pace of job creation, registering 195 thousand new job posts in June. In the Euro Zone, the unemployment rate reached a new record high in May, 12.2%, and the Composite PMI for June, despite a point higher than the registered in May, presented economic retraction for the 17th consecutive month. In Japan, first quarter annualized GDP was revised from 3.5% to 4.1%, while the industrial production, the retail sales and the consumer confidence pointed to monthly growth in May, respectively, of 2%, 1.5% and 1.2 point, reaching 45.7 points, the highest value since May 2007. In China, the signs of activity slowdown continue to be captured by the indicators of investments in fixed assets and industrial production, whose interannual changes declined, from April to May, 0.2 p.p. and 0.1 p.p., respectively, and by the manufacturing PMI, which, in June, retreated to 48.2 points, the worst result since September 2012.
66. Since the last Copom meeting, financial markets have presented increase in volatility and risk aversion, behavior favored by either the perception that the Federal Reserve (Fed) may reduce the monetary stimuli before the originally previewed, or by the renewed signs of activity deceleration in China. In the period between meetings, the CBOE VIX index, which had reached 14.8 points, reached 20.5 points on June 20th, a record high since December 28th, 2012. Similarly, several stock markets devalued, with highlights for the indices Ibovespa do Brasil, Shanghai Composite from China, Istanbul Stock Exchange National 100 Index from Turkey and FTSE MIB from Italy. In this context, the US dollar valued against the main currencies in emerging economies.
67. In the international commodities market, the ample supply of grains and the prospects for good crops in 2013/2014 have maintained the prices of the agricultural commodities in a downward trend, in particular for corn and wheat. In the metallic commodities market, the retreats in prices continue to be explained by the uncertainties regarding the Chinese demand and by the US dollar valuation, more recently deepened by the prospect of decreasing the monetary stimuli in the US. On the other hand, the increase of geopolitical tensions in Syria and Egypt translated into upward pressure for the oil prices.



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68. According to the International Financial Statistics, from the IMF, the annual change in the overall CPI was maintained at 3.1% in May, driven by the moderate prices increase in advanced economies, from 0.9% to 1.2%, compensated by new deceleration in the emerging economies, from 6.5% to 5.9%. The scenario of moderate growth and cooling in commodities prices favored the maintenance of the official interest rates at minimum historical levels by the G4 central banks, while monetary authorities in Poland and Hungary resumed the deepening of their expansionist policies stance, reducing their respective basic interest rates.

Foreign Trade and International Reserves

69. The Brazilian trade balance showed a surplus of US\$2.4 billion in June, as a result of US\$21.2 billion in exports and US\$18.8 billion in imports. The accumulated deficit in the first half of the year totaled US\$3 billion, compared to a surplus of US\$7.1 billion in the same period of 2012, reflecting a decrease of 0.7% in exports and an increase of 8.4% in imports, according to the daily average criterion. The total external trade expanded by 3.7% in the first half of the year, considering the daily averages, compared to the same period of 2012, totaling US\$232 billion.
70. The international reserves according to the liquidity concept, which includes repurchase lines, totaled US\$371.1 billion in June, representing decreases of US\$3.3 billion in the month and US\$7.5 billion in the year. According to the cash concept, the outstanding totaled US\$369.4 billion, which represent declines of US\$5 billion month-on-month and US\$3.7 billion relative to December 2012. In the month, the Central Bank settled sales of US\$1.7 billion in operations of repurchase lines in the local currency market. There was no spot intervention during the first half of 2013.

Money Market and Open Market Operations

71. After the May Copom meeting, the domestic yield curve showed increase in all its extension, with highlight for the long part. The period was characterized by the increase of volatility and of risk aversion in global scope. In the external scenario, the expectation of reduction of the monetary stimuli by the Fed resulted in valuation of the US dollar against the main emerging currencies and in increase of the rates related to the US Treasury securities. In the local market, according to market analysts, among the factors underpinning this movement, it bears highlighting the upward revision of the expectations regarding intensity and length of the tightening monetary cycle, the uncertainties regarding the effective accomplishment of the fiscal targets of the federal government, the devaluation of the BRL against the US dollar and the downward prospect of the sovereign rating by a risk classification agency. Between May 27th and July 8th 2013, one-, three- and six-month interest rates increased by 0.63 p.p., 0.66 p.p. and 0.70 p.p., respectively. The rates for one, two and three-year maturities increased by 0.86 p.p., 1.24 p.p. and 1.55 p.p., respectively. The real interest rate, measured by the ratio between the one-year nominal interest rate and the inflation expectation (smoothed) for the next twelve months, increased from 2.53%, on May 27th, to 3.35% on July 8th, mainly due to the rise in nominal interest rates.
72. From May 28th to July 8th, the BCB carried out traditional FX swap auctions with maturities varying between July and December 2012 and in January and July 2014. These operations totaled the equivalent to the amount of US\$28.5 billion, of which US\$3.3 billion relative to the rollover of the contracts maturing on July 1st. On July 8th, the FX short net result of the BCB regarding this instrument totaled the equivalent to US\$25.2 billion in notional value.
73. In the management of the liquidity of the banking reserves' market, the BCB conducted daily repurchase agreements with maturity of 3 months, from May 28th to July 8th, taking funds of R\$93.8 billion and, weekly, repurchase agreements with maturity of six months, taking funds of R\$15.3 billion. The overall daily average of the long-term operations outstanding retreated from R\$486.0 billion, between April 16th and May 27th, to R\$446.8 billion, between May 28th and July 8th. The BCB also carried out overnight repo agreements on 29 occasions as a borrower. It also conducted leveling operations, at the end of the day, with tenure of two business days. The overall daily average of such overnight operations was R\$253.2 billion in the period. The overall daily average of the total outstanding of repurchase agreements of the BCB increased from R\$687.1 billion between April 16th and May 27th, to R\$700.0 billion, between May 28th and July 8th. Considering the



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period between May 27th and July 8th, the outstanding of repurchase agreements increased from R\$679.7 billion to R\$741.1 billion. The main factors driving the liquidity expansion in the period were the net redemption of securities by the National Treasury and the net expenditures of the Government.